

Auditing Procedures Report

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Issued under Public Act 2 of 1968, as amended.

Unit Name	City of Harbor Springs	County	EMMET	Type	CITY	MuniCode	242010
Opinion Date-Use Calendar	June 5, 2008	Audit Submitted-Use Calendar	June 25, 2008	Fiscal Year-Use Drop List	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text" value="\$1,767,138"/>
General Fund Expenditure:	<input type="text" value="\$1,768,480"/>
Major Fund Deficit Amount:	<input type="text" value="\$0.00"/>

General Fund Balance:	<input type="text" value="\$1,587,058"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text" value="\$1,303,579"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	James	Last Name	Cusenza	Ten Digit License Number	1101012888				
CPA Street Address	923 Spring	City	Petoskey	State	MI	Zip Code	49770	Telephone	2313474136
CPA Firm Name	Hill, Schroderus & Co.	Unit's Street Address	160 Zoll Street	City	Harbor Springs	LU Zip	49740		

**FINANCIAL REPORT
CITY OF HARBOR SPRINGS
December 31, 2007**

**CITY OF HARBOR SPRINGS
FINANCIAL REPORT
December 31, 2007**

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Hill • Schroderus & Co., LLP
Certified Public Accountants & Consultants

June 5, 2008

Independent Auditors' Report

Honorable Mayor, Members of
City Council and City Manager
City of Harbor Springs, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Harbor Springs, Michigan (the City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Harbor Springs, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harbor Springs' basic financial statements. The other supplemental information, as listed in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hill, Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

The City of Harbor Springs

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Frederick W. Geuder, City Manager
Ronald B. McRae, City Clerk/Comptroller/Treasurer
Daniel J. Branson, Chief of Police

Jean Jardine, Mayor
Laura Kors, Mayor Pro-tem
Alan Hegedus, Council Member
Michael K. Heinz, Council Member
Pringle Pfeifer, Council Member

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Harbor Springs, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2007.

FINANCIAL HIGHLIGHTS:

Our overall financial status improved during the last year. Total net assets increased \$571,162 from \$14,483,895 in 2006 to \$15,055,057 in 2007. Net assets for the Government Activities Funds total \$6,922,840, which is an increase of \$403,036 from the previous year. Net assets for the Business-Type Activities Funds total \$8,132,217, which is a increase of \$168,126 from the previous year.

Governmental activities expenses for the year were \$1,962,667. These activities generated \$180,623 in charges for services, as well as \$190,373 in operating grants and contributions. Property taxes of \$1,340,677, business activities transfers of \$287,724, state shared revenues of \$131,455, interest and investment earnings of \$159,294 and other general revenues of \$75,557 provided additional support for the governmental activities.

Business activities operating revenues for the year were \$5,311,708 and operating expenses were \$5,033,993. Interest and investment earnings were \$170,459 and other revenues were \$7,676. Transfers to governmental activities were \$287,724, made from net revenues and existing assets.

OVERVIEW OF THE FINANCIAL STATEMENTS:

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT – WIDE FINANCIAL STATEMENTS:

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in the future periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, public works and recreation and cultural activities. The business-type activities of the City include electric, water and sewer and waterfront operations.

FUND STATEMENTS:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the City can be divided into two categories – governmental funds and proprietary funds.

Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service fund to account for motor vehicle and equipment usage. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

FUDICIARY FUNDS:

The City is a trustee or fiduciary for assets that are being held for the benefit of third parties. Since these funds cannot be used to address activities or obligations of the City, these funds do not appear in the government-wide financial statements.

NOTES TO THE FINANCIAL STATEMENTS:

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT – WIDE FINANCIAL ANALYSIS:

The Schedule of Net Assets, page iv, summarizes the City's net assets as of December 31, 2007.

At the end of the year, the City of Harbor Springs is able to report positive balances in all three categories of net assets. The largest portion of the City's net assets is its investment in capital assets (land, buildings, equipment, improvements, construction in progress and infrastructure), less any related debt used to acquire those assets that is still outstanding.

The second portion of net assets, restricted net assets represents resources that are subject to external restrictions on how they may be used. This would include restrictions for the Police Department and development fee payback.

The remaining portion of net assets, unrestricted net assets, may be used at the City's discretion to meet on going obligations as well as those designated internally for specific purposes.

The Schedule of Change in Net Assets, page v, summarizes the City's Statement of Activities. The City incurred approximately \$1.963 million in governmental expenses. These expenses were funded primarily with property taxes (69%), operating grants and contributions (10%, mostly for the Street Funds), transfers from the Electric, Water and Sewer and Waterfront Funds (15%) and charges for services (10%).

Business-type activities had an increase in net assets before transfers to government activities of \$455,850. Combined business-type and government activities net assets experienced a 2% increase during the year.

CITY OF HARBOR SPRINGS

SCHEDULE OF NET ASSETS

December 31, 2007

Description	Governmental Activities		Business Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Assets						
Current and other assets	\$ 3,419,047	\$ 3,582,657	\$ 4,543,585	\$ 4,475,673	\$ 7,962,632	\$ 8,058,330
Capital assets, net of accum. dep.	4,916,926	4,482,270	4,060,860	4,065,682	8,977,786	8,547,952
Total Assets	8,335,973	8,064,927	8,604,445	8,541,355	16,940,418	16,606,282
Liabilities						
Current	262,129	243,499	346,360	420,684	608,489	664,183
Non-current	1,151,004	1,301,624	125,868	156,580	1,276,872	1,458,204
Total liabilities	1,413,133	1,545,123	472,228	577,264	1,885,361	2,122,387
Net Assets						
Invested in capital assets, net of related debt	3,652,099	3,094,162	4,020,860	3,985,682	7,672,959	7,079,844
Restricted	33,021	28,620	1,250	16,000	34,271	44,620
Unrestricted	3,237,720	3,397,022	4,110,107	3,962,409	7,347,827	7,359,431
Total net assets	\$ 6,922,840	\$ 6,519,804	\$ 8,132,217	\$ 7,964,091	\$ 15,055,057	\$ 14,483,895

CITY OF HARBOR SPRINGS

SCHEDULE OF CHANGE IN NET ASSETS
December 31, 2007

Description	Governmental Activities		Business Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues						
Program Revenues:						
Charges for Services	\$ 180,623	\$ 182,642	\$ 5,311,708	\$ 5,043,369	\$ 5,492,331	\$ 5,226,011
Operating grants and contributions	190,373	189,555	-	-	190,373	189,555
Capital grants and contributions	-	-	-	2,020	-	2,020
General Revenues:						
Property Taxes	1,340,677	1,275,296	-	-	1,340,677	1,275,296
State-shared Revenues	131,455	114,335	-	-	131,455	114,335
Interest and Investment Earnings	159,294	138,176	170,459	149,328	329,753	287,504
Miscellaneous	75,557	32,110	7,676	624	83,233	32,734
Total revenues	\$ 2,077,979	\$ 1,932,114	\$ 5,489,843	\$ 5,195,341	\$ 7,667,822	\$ 7,127,455
Expenses						
General Government	218,028	165,656	-	-	218,028	165,656
Public Safety	829,020	778,793	-	-	829,020	778,793
Public Works	484,367	485,244	-	-	484,367	485,244
Recreation and Cultural	236,170	206,389	-	-	236,170	206,389
Other	63,189	42,310	-	-	63,189	42,310
Interest on long-term debt	53,469	54,810	-	-	53,469	54,810
Unallocated Depreciation	78,424	70,260	-	-	78,424	70,260
Electric	-	-	3,510,051	3,362,138	3,510,051	3,362,138
Water and sewer	-	-	1,106,386	1,089,794	1,106,386	1,089,794
Waterfront	-	-	417,556	461,224	417,556	461,224
Total expenses	\$ 1,962,667	\$ 1,803,462	\$ 5,033,993	\$ 4,913,156	\$ 6,996,660	\$ 6,716,618
Change in net assets before transfers	115,312	128,652	455,850	282,185	571,162	410,837
Transfers	287,724	293,009	(287,724)	(293,009)	-	-
Change in net assets	403,036	421,661	168,126	(10,824)	571,162	410,837
Net assets - Beginning of Year	6,519,804	6,098,143	7,964,091	7,974,915	14,483,895	14,073,058
Net assets - End of Year	\$ 6,922,840	\$ 6,519,804	\$ 8,132,217	\$ 7,964,091	\$ 15,055,057	\$ 14,483,895

FUND ANALYSIS:

At the end of the year, the governmental funds reported a combined fund balance of \$2,731,193, which was \$58,913 lower than at the beginning of the year. The City did under take some small projects, several sidewalk projects and the Pine Street Project during the year. The cost of these projects was approximately \$367,000. About \$4,000 was spent to update the Police Department's computers for the Forensic Program.

The proprietary funds net assets increased \$168,126 to \$8,132,217. The Electric Fund generated income before transfers and capital contributions of \$405,487, the Water and Sewer Fund generated income of \$20,237 before transfers and the Waterfront Fund generated income of \$30,126.

General Fund budgetary highlights are that the actual results varied 18% favorably from the budgetary plan. An unreserved ending fund balance of \$1,354,900 was budgeted. The ending unreserved fund balance actually was \$1,587,058. The Schedule presented as required supplementary information indicates an actual fund balance of \$1,587,058, which includes \$51,968 reserved for inventories and prepaid expenses and \$33,021 reserved for the Police Department. Overall expenditures were \$46,507 less than budgeted.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

At the end of the year the capital assets, net of accumulated depreciation and long-term debt were:

Capital Assets

Governmental Activities:	\$4,916,926
Business-type Activities:	\$4,060,860

Long-Term Debt:

Governmental Activities:	\$1,151,004
Business-type Activities:	\$125,868

Major capital activity during the year included sidewalk projects, the Pine Street/Arbor Street Road Project, and the continual study of the City's Electrical Distribution System.

There was no major debt activity during the year. Existing debt service payments were made timely.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS:

The spread between the millage rate levied by the City and the maximum millage rate permitted under the Headlee Amendment continues to shrink. In order to maintain the current level of services provided through the General Fund, the City may need to look at alternative sources of revenue or an override of the Headlee Amendment. The other alternative would be a reduction in services and/or personnel. It appears that new construction and home sales will be the answer for the near term future.

Following rate studies for the water, sewer and electric utilities, the City adopted increased rates in all of those areas in the spring of 2007. It is recommended that the City re-examine rates in about two years in order to minimize potential impacts of waiting too long. It appears the water and sewer rates will need to be watched.

The City Staff will continue to examine street repair and construction needs and will suggest priorities to City Council. Historically, the City has not borrowed funds for street construction, and it is anticipated that current and accumulated funds will pay for street construction. Where water and sewer main repairs are needed, those funds will come from the Water and Sewer Fund, but it has been noted that staff needs to continue to monitor rates to insure the adequacy of funds.

CITY OF HARBOR SPRINGS
Statement of Net Assets
December 31, 2007

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current Assets			
Cash	\$ 3,054,154	\$ 3,099,027	\$ 6,153,181
Receivables:			
Accounts	1,100	794,928	796,028
Interest	3,198	3,261	6,459
Due from fiduciary funds	85,412	1,300	86,712
Due (to) from other funds	(3,229)	3,229	-
Due from other governmental units	201,113	-	201,113
Inventories	12,241	307,514	319,755
Prepaid expenses	52,194	11,353	63,547
Total current assets	<u>3,406,183</u>	<u>4,220,612</u>	<u>7,626,795</u>
Noncurrent Assets			
Restricted assets:			
Customer deposits	-	125,868	125,868
Bond covenants	-	54,741	54,741
MPPA working capital advance	-	142,364	142,364
Deferred charges	12,864	-	12,864
Capital assets - net of depreciation	4,916,926	4,060,860	8,977,786
Total noncurrent assets	<u>4,929,790</u>	<u>4,383,833</u>	<u>9,313,623</u>
Total assets	<u>\$ 8,335,973</u>	<u>\$ 8,604,445</u>	<u>\$16,940,418</u>
<u>Liabilities and Net Assets</u>			
Current Liabilities			
Accounts payable	\$ 36,082	\$ 232,087	\$ 268,169
Accrued expenses	38,137	41,300	79,437
Due to other governmental units	26,840	32,973	59,813
Accrued interest	8,495	-	8,495
Payable from restricted assets:			
Current portion of bonds payable	-	40,000	40,000
Bonds payable, due within one year	152,575	-	152,575
Total current liabilities	<u>262,129</u>	<u>346,360</u>	<u>608,489</u>
Noncurrent Liabilities			
Payable from restricted assets:			
Customer deposits	-	125,868	125,868
Compensated absences payable	25,888	-	25,888
Bonds payable, net	1,125,116	-	1,125,116
Total noncurrent liabilities	<u>1,151,004</u>	<u>125,868</u>	<u>1,276,872</u>
Total liabilities	<u>1,413,133</u>	<u>472,228</u>	<u>1,885,361</u>
Net Assets			
Invested in capital assets, net of related debt	3,652,099	4,020,860	7,672,959
Restricted for:			
Police department	33,021	-	33,021
Development fee payback	-	1,250	1,250
Unrestricted	3,237,720	4,110,107	7,347,827
Total net assets	<u>6,922,840</u>	<u>8,132,217</u>	<u>15,055,057</u>
Total liabilities and net assets	<u>\$ 8,335,973</u>	<u>\$ 8,604,445</u>	<u>\$16,940,418</u>

See accompanying notes to the basic financial statements.

CITY OF HARBOR SPRINGS
Statement of Activities
For the Year Ended December 31, 2007

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Business-Type Activities	Total
Primary Government	\$ 218,028	\$ 26,377	\$ 427	\$ -	\$ (191,224)	\$ (191,224)
	829,020	120,615	-	-	(708,405)	(708,405)
	484,367	-	189,586	-	(294,781)	(294,781)
	236,170	33,631	360	-	(202,179)	(202,179)
	63,189	-	-	-	(63,189)	(63,189)
	53,469	-	-	-	(53,469)	(53,469)
	78,424	-	-	-	(78,424)	(78,424)
	1,962,667	180,623	190,373	-	(1,591,671)	(1,591,671)
	Total governmental activities					
Business-type activities:	3,510,051	3,825,508	-	-	315,457	315,457
	1,106,386	1,074,742	-	-	(31,644)	(31,644)
	417,556	411,458	-	-	(6,098)	(6,098)
	5,033,993	5,311,708	-	-	277,715	277,715
Total business-type activities						
Total primary government	\$ 6,996,660	\$ 5,492,331	\$ 190,373	\$ -	(1,591,671)	(1,313,956)
General revenues:						
Property taxes				1,340,677	-	1,340,677
State-shared revenues				131,455	-	131,455
Interest and investment earnings				159,294	170,459	329,753
Miscellaneous				75,557	7,676	83,233
Transfers				287,724	(287,724)	-
Total general revenues and transfers				1,994,707	(109,589)	1,885,118
Change in net assets				403,036	168,126	571,162
Net assets - beginning of year				6,519,804	7,964,091	14,483,895
Net assets - end of year				\$ 6,922,840	\$ 8,132,217	\$15,055,057

CITY OF HARBOR SPRINGS
Balance Sheet
Governmental Funds
December 31, 2007

	General	Major Street	Local Street	Other Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets</u>					
Cash	\$1,360,683	\$ 69,370	\$891,080	\$ 148,906	\$ 2,470,039
Receivables:					
Accounts	617	-	-	483	1,100
Accrued interest	1,461	81	887	147	2,576
Due from other funds	94,982	-	6,586	-	101,568
Due from other governmental units	168,814	25,944	6,355	-	201,113
Inventories	4,673	-	-	7,568	12,241
Prepaid expenditures	47,295	309	133	268	48,005
	<u>\$1,678,525</u>	<u>\$ 95,704</u>	<u>\$905,041</u>	<u>\$ 157,372</u>	<u>\$ 2,836,642</u>
Total assets					
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 27,824	\$ -	\$ -	\$ 229	\$ 28,053
Accrued expenditures	32,877	935	489	273	34,574
Due to other funds	3,926	9,484	2,274	298	15,982
Due to other governmental units	26,840	-	-	-	26,840
	<u>91,467</u>	<u>10,419</u>	<u>2,763</u>	<u>800</u>	<u>105,449</u>
Total liabilities					
Fund balances					
Reserved for:					
Inventories and prepaids	51,968	309	133	7,836	60,246
Police department	33,021	-	-	-	33,021
Unreserved	1,502,069	84,976	902,145	148,736	2,637,926
	<u>1,587,058</u>	<u>85,285</u>	<u>902,278</u>	<u>156,572</u>	<u>2,731,193</u>
Total fund balances					
Total liabilities and fund balances	<u>\$1,678,525</u>	<u>\$ 95,704</u>	<u>\$905,041</u>	<u>\$ 157,372</u>	<u>\$ 2,836,642</u>

CITY OF HARBOR SPRINGS
Reconciliation of Governmental Funds Balance Sheet to the
Statement of Net Assets
December 31, 2007

Total Fund Balance - Governmental Funds	\$ 2,731,193
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Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of net assets, these assets are capitalized and depreciated over their estimated useful lives. Includes capital assets of Internal Service Fund.

Governmental capital assets	10,004,579
Accumulated depreciation	(5,087,653)

Governmental funds report interest when due, whereas in the statement of net assets, interest is accrued on outstanding bonds.	(8,495)
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. Includes Internal Service Fund.

Governmental bonds payable	(1,277,691)
Compensated absences	(25,888)

Internal service funds are used to charge costs of certain activities, such as motor vehicle usage, to various departments within the City. The assets and liabilities of the Internal Service Fund are included in government activities in the statement of net assets.

Internal Service Fund balances not included in other reconciling items:

Current assets	588,926
Deferred charges	12,864
Accounts payable, accrued expenses and due to other funds	(14,995)

Net Assets of Governmental Activities	<u><u>\$ 6,922,840</u></u>
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CITY OF HARBOR SPRINGS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2007

	General	Major Street	Local Street	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 1,340,677	\$ -	\$ -	\$ -	\$ 1,340,677
Licenses and permits	18,584	-	-	-	18,584
State grants	131,455	147,387	42,199	-	321,041
Charges for services	152,164	-	-	2,082	154,246
Fines and forfeits	7,793	-	-	-	7,793
Interest and investment earnings	71,580	4,755	45,295	5,069	126,699
Other	44,885	637	6,917	427	52,866
Total revenues	<u>1,767,138</u>	<u>152,779</u>	<u>94,411</u>	<u>7,578</u>	<u>2,021,906</u>
Expenditures					
Current:					
General government	216,059	-	-	-	216,059
Public safety	827,379	-	-	1,641	829,020
Public works	300,581	130,857	52,929	-	484,367
Recreation and cultural	213,096	-	-	23,074	236,170
Other	63,189	-	-	-	63,189
Capital outlay	44,207	46,878	279,960	-	371,045
Debt Service:					
Principal	50,000	-	-	-	50,000
Interest	53,969	-	-	-	53,969
Total expenditures	<u>1,768,480</u>	<u>177,735</u>	<u>332,889</u>	<u>24,715</u>	<u>2,303,819</u>
Excess (deficiency) of revenues over expenditures	<u>(1,342)</u>	<u>(24,956)</u>	<u>(238,478)</u>	<u>(17,137)</u>	<u>(281,913)</u>
Other financing sources (uses)					
Operating transfers in	223,000	-	150,000	26,300	399,300
Operating transfers out	(176,300)	-	-	-	(176,300)
Total other financing sources (uses)	<u>46,700</u>	<u>-</u>	<u>150,000</u>	<u>26,300</u>	<u>223,000</u>
Net change in fund balances	<u>45,358</u>	<u>(24,956)</u>	<u>(88,478)</u>	<u>9,163</u>	<u>(58,913)</u>
Fund balances - beginning of year	<u>1,541,700</u>	<u>110,241</u>	<u>990,756</u>	<u>147,409</u>	<u>2,790,106</u>
Fund balances - end of year	<u>\$ 1,587,058</u>	<u>\$ 85,285</u>	<u>\$ 902,278</u>	<u>\$ 156,572</u>	<u>\$ 2,731,193</u>

CITY OF HARBOR SPRINGS
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended December 31, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (58,913)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation.

Expenditures for capital assets	371,045
Current year depreciation	(78,424)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of principal paid on long-term debt.	50,000
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Interest on long-term debt is recognized as an expenditure when it is due in the governmental funds. However, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.	500
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Compensated absences are recognized as an expenditure when it is paid in the governmental funds. In the statement of activities, however, compensated absences are recognized as an expense when earned.	(1,973)
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Internal service funds are used to charge costs of certain activities, such as insurance and motor vehicle usage, to various departments within the City. The net revenue (expense) of the internal service funds are included in governmental activities in the statement of activities.	<div style="border-top: 1px solid black; border-bottom: 3px double black;">120,801</div>
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Change in Net Assets of Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 403,036</div>
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CITY OF HARBOR SPRINGS
Statement of Net Assets
Proprietary Funds
December 31, 2007

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Electric System	Water and Sewer System	Waterfront	Totals Current Year	
<u>Assets</u>					
Current Assets					
Cash	\$1,670,463	\$ 991,795	\$ 436,769	\$3,099,027	\$ 584,115
Receivables:					
Accounts	680,314	110,459	4,155	794,928	-
Accrued interest	1,800	962	499	3,261	622
Due from other funds	840	8,904	298	10,042	-
Inventories	270,606	36,908	-	307,514	-
Prepaid expenses	7,514	2,295	1,544	11,353	4,189
	<u>2,631,537</u>	<u>1,151,323</u>	<u>443,265</u>	<u>4,226,125</u>	<u>588,926</u>
Total current assets					
Noncurrent Assets					
Restricted assets:					
Customer deposits	76,178	15,600	34,090	125,868	-
Bond covenants	-	-	54,741	54,741	-
MPPA working capital advance	142,364	-	-	142,364	-
Deferred charges	-	-	-	-	12,864
Capital assets	4,402,739	2,410,131	2,077,152	8,890,022	2,758,411
Less: accumulated depreciation	<u>(2,447,358)</u>	<u>(1,321,982)</u>	<u>(1,059,822)</u>	<u>(4,829,162)</u>	<u>(1,379,451)</u>
	<u>2,173,923</u>	<u>1,103,749</u>	<u>1,106,161</u>	<u>4,383,833</u>	<u>1,391,824</u>
Total noncurrent assets					
Total assets	<u>\$4,805,460</u>	<u>\$2,255,072</u>	<u>\$1,549,426</u>	<u>\$8,609,958</u>	<u>\$ 1,980,750</u>

CITY OF HARBOR SPRINGS
Statement of Net Assets
Proprietary Funds
(Continued)
December 31, 2007

	<u>Business-Type Activities - Enterprise Funds</u>				Governmental Activities - Internal Service Fund
	<u>Electric System</u>	<u>Water and Sewer System</u>	<u>Waterfront</u>	<u>Totals Current Year</u>	
<u>Liabilities and Net Assets</u>					
Current Liabilities					
Accounts payable	\$ 223,331	\$ 2,008	\$ 6,748	\$ 232,087	\$ 8,029
Accrued expenses	20,683	20,617	-	41,300	3,563
Due to other funds	-	2,173	3,340	5,513	3,403
Due to other governmental units	-	32,973	-	32,973	-
Bonds payable due within one year	-	-	-	-	102,575
Total current liabilities	<u>244,014</u>	<u>57,771</u>	<u>10,088</u>	<u>311,873</u>	<u>117,570</u>
Current Liabilities (payable from restricted assets)					
Current portion of bonds payable	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Noncurrent Liabilities					
Payable from restricted assets:					
Customer deposits	76,178	15,600	34,090	125,868	-
Bonds payable (net of current portion, unamortized premiums, issuance costs, and deferred amount on refunding)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,116</u>
Total noncurrent liabilities	<u>76,178</u>	<u>15,600</u>	<u>34,090</u>	<u>125,868</u>	<u>200,116</u>
Total liabilities	<u>320,192</u>	<u>73,371</u>	<u>84,178</u>	<u>477,741</u>	<u>317,686</u>
Net Assets					
Invested in capital assets, net of related debt	1,955,381	1,088,149	977,330	4,020,860	1,076,269
Restricted for development fee payback	1,250	-	-	1,250	-
Unrestricted	<u>2,528,637</u>	<u>1,093,552</u>	<u>487,918</u>	<u>4,110,107</u>	<u>586,795</u>
Total net assets	<u>4,485,268</u>	<u>2,181,701</u>	<u>1,465,248</u>	<u>8,132,217</u>	<u>1,663,064</u>
Total liabilities and net assets	<u>\$4,805,460</u>	<u>\$2,255,072</u>	<u>\$1,549,426</u>	<u>\$8,609,958</u>	<u>\$ 1,980,750</u>

CITY OF HARBOR SPRINGS
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2007

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Electric System	Water and Sewer System	Waterfront	Totals Current Year	
Operating revenues					
Charges for services	\$ 3,817,083	\$ 1,065,632	\$ 411,458	\$ 5,294,173	\$ 418,499
Operating expenses					
Purchased power	2,411,633	-	-	2,411,633	-
Personal services	424,919	220,296	109,922	755,137	46,976
Contractual services	397,253	759,548	177,193	1,333,994	107,405
Other supplies and expenses	91,463	55,148	22,599	169,210	72,680
Heat, light and power	37,360	22,897	22,114	82,371	11,132
Depreciation	147,423	48,497	80,128	276,048	140,522
Total operating expenses	3,510,051	1,106,386	411,956	5,028,393	378,715
Operating income (loss)	307,032	(40,754)	(498)	265,780	39,784
Nonoperating revenues					
Interest	90,030	51,881	28,548	170,459	32,595
Development fees	8,425	9,110	-	17,535	-
Miscellaneous	-	-	7,676	7,676	2,277
Total nonoperating revenues	98,455	60,991	36,224	195,670	34,872
Nonoperating expenses					
Interest	-	-	5,600	5,600	18,579
Total nonoperating revenues (expenses)	98,455	60,991	30,624	190,070	16,293
Income (loss) before operating transfers and capital contributions	405,487	20,237	30,126	455,850	56,077
Other financing sources (uses)					
Operating transfers in	-	-	-	-	64,724
Operating transfers out	(269,231)	(18,493)	-	(287,724)	-
Total other financing sources (uses)	(269,231)	(18,493)	-	(287,724)	64,724
Change in net assets	136,256	1,744	30,126	168,126	120,801
Total net assets - beginning	4,349,012	2,179,957	1,435,122	7,964,091	1,542,263
Total net assets - ending	\$ 4,485,268	\$ 2,181,701	\$ 1,465,248	\$ 8,132,217	\$ 1,663,064

CITY OF HARBOR SPRINGS
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2007

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Electric System	Water and Sewer System	Waterfront	Totals Current Year	
Cash flows from operating activities					
Receipts from customers	\$ 3,761,630	\$ 1,062,674	\$ 408,398	\$ 5,232,702	\$ 421,627
Payments to suppliers	(3,003,612)	(826,499)	(229,409)	(4,059,520)	(245,316)
Payments to employees	(418,331)	(223,182)	(111,149)	(752,662)	(48,052)
Net cash provided (used) by operating activities	339,687	12,993	67,840	420,520	128,259
Cash flows from non-capital financing activities					
Operating transfers-in from other funds	-	-	-	-	64,724
Operating transfers-out to other funds	(269,231)	(18,493)	-	(287,724)	-
Net cash provided (used) by non-capital financing activities	(269,231)	(18,493)	-	(287,724)	64,724
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets and contracts payable	(73,429)	(174,487)	(23,307)	(271,223)	(282,558)
Principal paid on bonds	-	-	(40,000)	(40,000)	(80,000)
Interest paid on bonds	-	-	(5,600)	(5,600)	(12,462)
Development fees	8,425	9,110	-	17,535	-
Net cash provided by miscellaneous non-operating activities	-	-	7,676	7,676	2,277
MPPA working capital advance	(6,131)	-	-	(6,131)	-
Net cash provided (used) for capital and related financing activities	(71,135)	(165,377)	(61,231)	(297,743)	(372,743)
Cash flows from investing activities					
Interest received	94,354	55,052	29,952	179,358	34,327
Net cash provided (used) from investing activities	94,354	55,052	29,952	179,358	34,327
Net increase (decrease) in cash	93,675	(115,825)	36,561	14,411	(145,433)
Cash, beginning	1,652,966	1,123,220	489,039	3,265,225	729,548
Cash, ending	<u>\$ 1,746,641</u>	<u>\$ 1,007,395</u>	<u>\$ 525,600</u>	<u>\$ 3,279,636</u>	<u>\$ 584,115</u>
Classified as:					
Current assets	\$ 1,670,463	\$ 991,795	\$ 436,769	\$ 3,099,027	\$ 584,115
Restricted assets	76,178	15,600	88,831	180,609	-
Totals	<u>\$ 1,746,641</u>	<u>\$ 1,007,395</u>	<u>\$ 525,600</u>	<u>\$ 3,279,636</u>	<u>\$ 584,115</u>

CITY OF HARBOR SPRINGS
Statement of Cash Flows
Proprietary Funds
(Continued)
For the Year Ended December 31, 2007

	<u>Business-Type Activities - Enterprise Funds</u>				<u>Governmental Activities - Internal Service Fund</u>
	<u>Electric System</u>	<u>Water and Sewer System</u>	<u>Waterfront</u>	<u>Totals Current Year</u>	
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income (loss)	<u>\$ 307,032</u>	<u>\$ (40,754)</u>	<u>\$ (498)</u>	<u>\$ 265,780</u>	<u>\$ 39,784</u>
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	147,423	48,497	80,128	276,048	140,522
(Increase) decrease in accounts receivable	(62,796)	(3,808)	(4,155)	(70,759)	3,128
(Increase) decrease in inventory	8,851	8,586	-	17,437	-
(Increase) decrease in due from other funds	8,540	8,033	(298)	16,275	-
(Increase) decrease in prepaid expenses	9,772	4,324	(135)	13,961	(483)
Increase (decrease) in accounts payable	(59,510)	(3,413)	(5,528)	(68,451)	(2,836)
Increase (decrease) in accrued expenses	6,588	(2,886)	(1,227)	2,475	(1,076)
Increase (decrease) in due to other funds	(33,556)	1,912	(1,542)	(33,186)	(50,780)
Increase (decrease) in due to other governmental units	-	(8,348)	-	(8,348)	-
Increase (decrease) in deposits	7,343	850	1,095	9,288	-
Total adjustments	<u>32,655</u>	<u>53,747</u>	<u>68,338</u>	<u>154,740</u>	<u>88,475</u>
Net cash provided (used) by operating activities	<u>\$ 339,687</u>	<u>\$ 12,993</u>	<u>\$ 67,840</u>	<u>\$ 420,520</u>	<u>\$ 128,259</u>

CITY OF HARBOR SPRINGS
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2007

	<u>Agency Funds</u>
<u>Assets</u>	
Cash	\$ 424,100
Investments	271,681
Receivables:	
Taxes	2,120,588
Water sales	4,443
	<hr/>
Total assets	\$ 2,820,812
	<hr/>
<u>Liabilities</u>	
Due to other funds	\$ 86,712
Due to other governmental units	8,664
Due to County	138,597
Due to School	1,404,629
Due to State	47,028
Due to ISD	523,052
Due to College	460,663
Due to Medical Care Facility	92,185
Due to Cemetery	28,418
Due to Ambulance and EMS	28,789
Other liabilities	2,075
	<hr/>
Total liabilities	\$ 2,820,812
	<hr/>

**CITY OF HARBOR SPRINGS
NOTES TO FINANCIAL STATEMENTS
December 31, 2007**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Harbor Springs (the City) was incorporated October 6, 1932, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary funds and similar component units in accordance with GASB Statement No. 20. The following is a summary of the significant policies used by the City of Harbor Springs:

REPORTING ENTITY

These financial statements present the City (the primary government). As defined by GASBS No. 14, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City. The primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

BASIC FINANCIAL STATEMENTS – OVERVIEW

The City of Harbor Springs' basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and the fund financial statements categorize primary government activities as either governmental or business type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from legally separate component units for which the primary government is financially accountable.

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule the effect of interfund activity, such as overhead costs, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Internal service funds are consolidated into the governmental column when presented at the government-wide level. This is because the principal users of the internal service are the City's governmental activities. The net profit/loss in the internal service funds is allocated to the functional activity (public safety, public works, etc.) based upon usage.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS – CONTINUED

In the government-wide Statement of Net Assets, both the governmental and business type activities are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. This Statement reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating grants and capital grants.

The program revenues must be directly associated with the function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds in the governmental or business type categories. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds) for the determination of major funds.

Governmental Funds

The following is a description of the major governmental funds of the City:

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Major and Local Street Funds – The Street Funds account for the operation of the street departments. Primary financing is provided by the City's share of state gasoline taxes. State law requires these gasoline taxes be used to maintain streets.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

In addition, the City reports the following non-major governmental funds:

Special Revenue Funds

Police Reserve Fund – The City performs record keeping functions for this fund while the City Council approves all transactions. Primary financing is through contributions.

Historical Commission Fund – The City performs record keeping functions for this fund while the City Council approves all transactions. Primary financing is through contributions.

Proprietary Funds

The focus of the proprietary funds is upon the determination of operating income, changes in fund net assets, financial position, and cash flows, which is similar to for-profit businesses. The following is a description of the major proprietary funds of the City:

Electric Fund – The Electric Fund is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing electricity to the general public are recovered through user charges.

Water and Sewer Fund – The Water and Sewer Fund is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing water and sewer services to the general public are recovered through user charges.

Waterfront Fund – The Waterfront Fund is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing City boat docking and mooring services to the general public are recovered through user charges.

In addition, the City reports the following non-major proprietary funds:

Motor Vehicle and Equipment Fund – The Motor Vehicle and Equipment Fund is an internal service fund. This fund accounts for the cost of acquiring, maintaining and providing vehicle and equipment usage to various City departments.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Electric, Water and Sewer, Waterfront, and Motor Vehicle and Equipment Funds are charges to customers for sales and services. Operating expenses for these funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

Fiduciary Funds

The fiduciary funds are used to account for assets held by the City in a trustee or agent capacity. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Agency funds use the accrual basis of accounting, however report only assets and liabilities.

Tax Fund – The Tax Fund accounts for the collection and payment of property tax levies.

West Traverse Township Water Fund – The West Traverse Township Water Fund accounts for the Township's usage of the City's water system.

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

All proprietary funds, pension trust funds and agency funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Unbilled Water and Sewer and Electric Fund utility service receivables are recorded at year-end.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year-end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits.

Inventory

Inventory is valued at cost, which approximates market, using the first-in, first-out method. Inventory in the Historical Commission Fund consists of books and essays, which are recorded as expenditures when sold rather than when purchased.

Interfund Receivables/Payables

Outstanding balances between funds are reported as "due to/from other funds" on the balance sheet of the fund financial statements and as "internal balances" on the Statement of Net Assets of the government-wide financial statements.

Capital Assets

Capital assets, which include property, buildings, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets are recorded by the City when the initial individual costs are equal to or greater than the following amounts:

<u>Asset Type</u>	<u>Amount</u>
Land	\$ 1
Equipment	3,000
Buildings & Building improvements	10,000
Infrastructure	10,000

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, buildings and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	20 to 60 years
Water and Sewer Lines	50 to 75 years
Streets, Curbs and Gutters	10 to 30 years
Electric Lines and Appurtenances	30 to 50 years
Vehicles (Pickup Trucks & Automobiles)	3 to 7 years
Vehicles (Large Trucks and Fire Trucks)	10 to 25 years
Construction Equipment (Front End Loaders)	5 to 15 years
Office Equipment	5 to 7 years
Office Furniture	5 to 15 years

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY – CONTINUED

Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

Compensated Absences (Vacation and Sick Time)

Vacation days not used during the year may not be accumulated for union employees. Nonunion employees may convert unused vacation days to sick leave. Due to contract years differing from the City's fiscal year, unpaid vacation time represents unused, but not accumulated, vacation time. Sick time not used during the year may be accumulated. Upon retirement or death of an employee, he/she or his/her beneficiary is eligible to receive accumulated sick leave pay, up to a maximum dollar amount.

All vacation, sick pay, and other employee benefit amounts accrue when earned in the government-wide and proprietary fund financial statements. Sick and vacation pay are recognized in the governmental financial statements when the time is used.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

COMPARATIVE DATA

Comparative data for the prior year is not included in the City's financial statements.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all operating funds of the City except for the agency funds. Budgetary control is legally maintained at the fund level.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – CONTINUED

1. Prior to December 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures/expenses and the means of financing them.
2. A public hearing is conducted at City Hall to obtain taxpayer comments.
3. Prior to January 1, the fund budgets are legally enacted through passage of resolutions.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures/expenses of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. Budgeted amounts are as originally adopted, or as amended by the City Council.
7. All appropriations lapse at year-end.

The General Fund Budgetary information includes administrative charges by the General Fund to various other funds as revenue of the General Fund. They have been offset against General Fund expenditures in the preparation of the basic financial statements. These charges remain as administrative expenditures/expenses of the various funds charged in the basic financial statements.

The City did not have an excess of expenditures over appropriations for the General Fund or its Special Revenue Funds.

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City's deposits and investment policy are in accordance with statutory authority.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment policy limits deposits to certificates of deposit, savings accounts with banks, savings and loan associations, and credit unions which are insured with the applicable federal agency. At year-end, the carrying amount of the City's deposits was \$6,757,890 and the bank balance was \$6,940,008. Of the bank balance, \$407,390 was covered by Federal depository insurance. The remaining amount was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds. The City may experience significant fluctuations in deposit balances through the year.

Credit Risk – Investments. At year-end, the City's investment in MBIA's Michigan Class investment pool of \$271,681 was rated AAA-V1 by Fitch.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 3: DEPOSITS AND INVESTMENTS –CONTINUED

Pooling of Cash - The City pools cash to maximize its investment return.

Fund	Amount
Primary Government	
General	\$ 1,357,063
Major Street	69,370
Local Street	891,080
Electric System	1,746,641
Water and Sewer System	1,007,395
Waterfront	525,600
Other Nonmajor Governmental Funds	148,806
Internal Service Fund	584,115
	<hr/>
Total	6,330,070
Fiduciary Funds	5,521
	<hr/>
Total pooled cash	6,335,591
Cash not held in pooled accounts:	
Primary government	3,720
Fiduciary Funds	418,579
	<hr/>
Total cash	<u>\$ 6,757,890</u>
Unrestricted cash	\$ 6,153,181
Unrestricted cash (fiduciary funds)	424,100
Restricted cash	180,609
	<hr/>
Total cash	<u>\$ 6,757,890</u>

Restricted Assets

Restricted assets consist of cash restricted for customer deposits and revenue bond covenants in the Waterfront Fund. Total restricted assets at December 31, 2007 were \$180,609.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 4: **PROPERTY TAXES**

Property taxes are levied and become a lien on property as of July 1 on the State taxable valuation of property in the City as of the preceding December 31. The City bills and collects its own property taxes and also collects taxes for other governmental units. Collection of other governmental unit's taxes and remittance of them to the units are accounted for in the Agency Fund. Property taxes are recognized as revenue in the year for which they are levied.

The City is permitted by charter to levy taxes, subject to State Headlee and Truth in Taxation provisions, up to \$15 per \$1,000 of taxable valuation for general governmental services and for the payment of principal and interest on general obligation long-term debt. The 2007 State taxable valuation of the City of Harbor Springs totaled \$ 214,533,729.

The tax rate for the year ended December 31, 2007, was as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>
General governmental services	5.8774 per \$1,000

NOTE 5: **INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 94,982	\$ 3,926
Major Street	-	9,484
Local Street	6,586	2,274
Historical Commission	-	298
Electric	840	-
Water and Sewer	8,904	2,173
Waterfront	298	3,340
Internal Service	-	3,403
Tax	-	85,412
West Traverse Township	-	1,300
	<u>\$ 111,610</u>	<u>\$ 111,610</u>

The interfund balances are primarily for property taxes to be collected in the Fiduciary Tax Fund and remitted to the General Fund and for wages, fringe benefits, and insurance that needed to be properly allocated.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 6: INTERFUND TRANSFERS

Operating transfers are as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 223,000	\$ 176,300
Local Street Fund	150,000	-
Other Nonmajor Govt. Funds	26,300	-
Electric Fund	64,724	269,231
Water and Sewer Fund	-	18,493
	<u>\$ 464,024</u>	<u>\$ 464,024</u>

The operating transfers are mainly for street improvements and maintenance, debt service, equipment purchases, museum operations, and general City operations.

NOTE 7: CAPITAL ASSETS

Capital asset activity of the City for the current year was as follows:

	<u>Balance January 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2007</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	<u>\$ 915,890</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 915,890</u>
Capital assets being depreciated:				
Buildings and improvements	3,292,206	20,599	-	3,312,805
Street, curbs, sidewalks and storm sewers	3,666,315	326,838	-	3,993,153
Office equipment	46,467	3,722	-	50,189
Furniture & equipment	148,364	-	-	148,364
Machinery & equipment	<u>1,281,735</u>	<u>302,443</u>	<u>-</u>	<u>1,584,178</u>
Subtotal	<u>8,435,087</u>	<u>653,602</u>	<u>-</u>	<u>9,088,689</u>
Less accumulated depreciation:				
Building and improvements	(350,434)	(67,847)	-	(418,281)
Street, curbs, sidewalks and storm sewers	(3,448,049)	(14,574)	-	(3,462,623)
Office equipment	(27,916)	(7,568)	-	(35,484)
Furniture & equipment	(44,702)	(7,218)	-	(51,920)
Machinery & equipment	<u>(997,606)</u>	<u>(121,739)</u>	<u>-</u>	<u>(1,119,345)</u>
Subtotal	<u>(4,868,707)</u>	<u>(218,946)</u>	<u>-</u>	<u>(5,087,653)</u>
Net capital assets being depreciated:	<u>3,566,380</u>	<u>434,656</u>	<u>-</u>	<u>4,001,036</u>
Governmental activities net capital assets	<u>\$ 4,482,270</u>	<u>\$ 434,656</u>	<u>\$ -</u>	<u>\$ 4,916,926</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 7: CAPITAL ASSETS – CONTINUED

	Balance January 1, 2007	Additions	Deletions	Balance December 31, 2007
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 314,913	\$ -	\$ -	\$ 314,913
Capital assets being depreciated:				
Buildings and improvements	1,872,433	17,146	-	1,889,579
Equipment	6,431,449	254,081	-	6,685,530
Subtotal	8,303,882	271,227	-	8,575,109
Less accumulated depreciation:				
Buildings and improvements	(1,008,994)	(83,854)	-	(1,092,848)
Equipment	(3,544,119)	(192,195)	-	(3,736,314)
Subtotal	(4,553,113)	(276,049)	-	(4,829,162)
Net capital assets being depreciated	3,750,769	(4,822)	-	3,745,947
Business-type activities net capital assets	\$ 4,065,682	\$ (4,822)	\$ -	\$ 4,060,860

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 7: CAPITAL ASSETS – CONTINUED

Depreciation expense was charged as follows:

Governmental Activities

Unallocated	\$ 78,424
Internal service fund capital assets consolidated with the governmental activities	<u>140,522</u>
Total governmental activities	<u><u>\$ 218,946</u></u>

Business-type Activities

Electric	\$ 147,423
Water and sewer	48,497
Waterfront	<u>80,128</u>
Total business-type activities	<u><u>\$ 276,048</u></u>

Proprietary Fund Type Property, Plant and Equipment

Proprietary fund type property, plant and equipment at December 31, 2007 are summarized as follows:

	Enterprise	Internal Service
Land	\$ 314,913	\$ 36,640
Buildings and improvements	1,889,579	1,156,544
Equipment	<u>6,685,530</u>	<u>1,565,227</u>
Total	8,890,022	2,758,411
Less: accumulated dep.	<u>(4,829,162)</u>	<u>(1,379,451)</u>
Net	<u><u>\$ 4,060,860</u></u>	<u><u>\$ 1,378,960</u></u>

NOTE 8: DEFERRED CHARGES

Debt issuance cost within the Motor Vehicle and Equipment Fund of \$25,748 relating to the 2004 General Obligation Bonds are being amortized as interest expense using the straight-line method over the 6-year life of the 2006 bonds. Interest expense of \$4,291 was recognized in the current year; unamortized amounts at year-end amounted to \$12,874.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 9: LEASE OBLIGATIONS

The City has entered into lease agreements with the Harbor Springs Area Fire Authority for fire protection services. The City uses the land, building, and equipment to provide fire protection services to the constituent municipalities making up the Harbor Springs Area Fire Authority.

The current lease agreements with the Authority call for annual lease payments from the Authority to the City of \$50 for the land and building lease, and annual payments from the City to the Authority of \$5 for the sublease of land and buildings, and \$5 for the lease of fire protection equipment.

The City has a lease agreement with the Harbor-Petoskey Area Airport Authority for airport related services. The City leases real and personal property to the Authority in consideration for those airport services as well as \$1 per year. The lease term of 25 years is extended each year unless either the lessor or tenant gives notice to fix the term.

The City has a lease agreement with the State of Michigan Department of Natural Resources ('DNR') for a parcel of Lake Michigan bottomland where the City's East Dock is located. The original lease terms call for annual payments to the DNR through 2014. Lease rates are adjusted in years ending in "0" or "5". The terms allow for one renewal of 25 years at the City's option. The lease amount for the year ending December 31, 2007 was \$4,961.

The City also has a lease agreement with the State of Michigan Department of Environmental Quality for the mooring fields. The lease fees are 10% of annual mooring revenues. For the year ended December 31, 2007, the lease fees were \$5,904.

The City has entered into a lease agreement with the Harbor Springs Historical Society (Blackbird Museum). The city leases the old Historic City Hall to the society for purposes of a museum. The term of the lease is for 25 years with an option to renew for an extended two years. Rent is ten dollars a year and is payable on May 1.

NOTE 10: DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Harbor Springs participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees and the meter reader of the City of Harbor Springs. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the state's local government employees. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 North Canal, Lansing, Michigan 48917.

Funding Policy

Annual minimum funding requirements are determined via actuarial calculations. The actuarial basis is determined by statute. The City contributes 8.5% of payroll for plan participants, regardless of the minimum funding amount. Plan members are required to contribute any amounts in excess of 8.5% of payroll that are necessary to meet the minimum funding requirements. For the year-ended December 31, 2007, employee contributions were \$60,734. The contribution requirements of plan members and the City are established and may be amended by the MERS board.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 10: DEFINED BENEFIT PENSION PLAN – CONTINUED

Annual Pension Cost

For the year-ended 2007, the City's required and actual contributions were \$102,582. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age normal cost method. Significant actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses); and (b) projected salary increases of 4.5% per year (plus a percentage based on an age-related scale to reflect merit, longevity, and promotional pay increases). Both (a) and (b) included an inflation component of 3% to 4%. The actuarial value of the City's assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. The City's unfunded actuarial accrued liabilities are amortized by a level percent of payroll contributions over a 30-year period.

Three-Year Trend Information

<u>Fiscal Year-ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12-31-05	\$ 83,058	100%	-
12-31-06	101,693	100%	-
12-31-07	102,582	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered-Payroll ((b-a)/c)</u>
01/01/05	1,152,172	2,222,610	1,070,438	52%	1,189,208	90%
12/31/05	1,449,457	2,439,149	989,692	59%	1,141,005	87%
12/31/06	1,807,310	2,788,706	981,396	65%	1,146,631	86%
12/31/07	*	*	*	*	*	*

* Information not currently available.

NOTE 11: OTHER POST-EMPLOYEE BENEFITS

The City provides post-employment benefits of health insurance to eligible employees. The City funds these benefits on a pay-as-you-go basis as necessary. For the year ended December 31, 2007, there were five participants. The City's cost was \$57,234.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 12: LONG-TERM DEBT

The following is a summary of the City's long-term debt transactions for the year ended December 31, 2007:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
Bonds and notes payable:					
General obligation debt					
2002 Series	\$ 1,025,000	\$ -	\$ 50,000	\$ 975,000	\$ 50,000
2004 Series	390,000	-	80,000	310,000	105,000
	<u>1,415,000</u>	<u>-</u>	<u>130,000</u>	<u>1,285,000</u>	<u>155,000</u>
Plus premium on bonds payable	3,476	-	869	2,607	869
Less deferred amount on refundings	<u>(13,210)</u>	<u>-</u>	<u>(3,294)</u>	<u>(9,916)</u>	<u>(3,294)</u>
Total bonds and notes payable	1,405,266	-	127,575	1,277,691	152,575
Other liabilities:					
Compensated absences	<u>23,917</u>	<u>1,971</u>	<u>-</u>	<u>25,888</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 1,429,183</u>	<u>\$ 1,971</u>	<u>\$ 127,575</u>	<u>1,303,579</u>	<u>152,575</u>
Business Type Activities					
Bonds and notes payable:					
Revenue bonds					
1989 Marina improvement	<u>\$ 80,000</u>	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ 40,000</u>

Long-term liabilities payable at December 31, 2007 is composed of the following individual issues:

\$1,125,000, 2002 Harbor Springs Building Authority General Obligation bonds due in annual installments of \$25,000 to \$75,000 through October 1, 2022; interest at 4.00% to 6.00%. \$ 975,000

\$560,000, 2004 Harbor Springs General Obligation bonds due in annual installments of \$80,000 to \$105,000 through October 1, 2010; interest at 3.00% to 3.50%, net of premium and deferred amount on refundings. 302,691

Total governmental activities general obligation debt 1,277,691

Compensated Absences 25,888

Total governmental activities long-term liabilities \$1,303,579

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 12: LONG-TERM DEBT – CONTINUED

Business-Type Activities:

\$450,000, 1989 Marina Improvement Revenue Bonds due in annual installments of \$40,000 through September 1, 2008; interest at 6.95% to 7.00%.

\$ 40,000

The annual debt service requirements to maturity for all general and revenue obligation bonds outstanding excluding premium and refunding deferrals, as of December 31, 2007, are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 155,000	\$ 61,030	\$ 40,000	\$ 2,800
2009	155,000	54,878	-	-
2010	150,000	48,468	-	-
2011	50,000	41,968	-	-
2012	50,000	38,968	-	-
2013-2017	350,000	150,965	-	-
2018-2022	375,000	57,654	-	-
Total	<u>\$ 1,285,000</u>	<u>\$ 453,931</u>	<u>\$ 40,000</u>	<u>\$ 2,800</u>

NOTE 13: COMMITMENTS

Insurance Commitments

The City self-insures its workmen's compensation and unemployment compensation liabilities through their participation in workmen's compensation and unemployment compensation self-insurance groups.

Entitlement Commitments

- A. During 1979 and 1982, the Michigan Public Power Agency (MPPA), of which the City is a member, acquired an ownership interest in the Consumers Power Company Campbell No. 3 plant, related transmission lines and coal stockpile, and rights to back-up capacity and energy supplies from other Consumer generating units and resources.

The City's entitlement share of the Campbell No. 3 generating capacity is 500 (KW) which specifies minimum annual payments on a "take-or-pay" basis for the generation and transmission capability of the unit, through the year 2012.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 13: COMMITMENTS – CONTINUED

Entitlement Commitments – Continued

- B. During 2001, the MPPA, of which the City is a member, acquired an ownership interest in the CT Project No. 1.

The City's entitlement share of the CT Project No. 1 generating capacity is 1,999(KW) which specifies minimum annual payments on a "take-or-pay" basis for the generation and transmission capability of the unit, through the year 2026.

- C. The City also has a take-or-pay contract with the Harbor Springs Area Sewage Disposal Authority for the construction of a sewer system. The control and ownership of the sewer facilities rests with the Authority.

The original 1989 Bonds were refunded in 2004. The faith and credit of the City has been pledged to pay its 63.84% share of the \$370,000 refunding bonds issued by the Harbor Springs Area Sewage Disposal Authority through the year 2009.

- D. In March 2002, the City entered into a contract with the Harbor Springs Area Sewage Disposal Authority for the City's share of the cost of a new wastewater treatment facility and the closure of the Authority's existing lagoon and spray irrigation system.

The faith and credit of the City has been pledged to pay its 39.28% share of the \$5,664,770 of bonds issued by the Harbor Springs Area Sewage Disposal Authority through the year 2023.

The entitlements specify minimum annual payments as follows:

	Campbell No. 3 (A.)	CT Project No. 1 (B.)	H. S. Sewage Authority (C.)	H. S. Sewage Authority (D.)	Total
2008	\$ 48,939	\$ 109,703	\$ 51,471	\$ 141,578	\$ 351,691
2009	39,901	109,732	52,987	141,111	343,731
2010	40,128	109,889	-	140,596	290,613
2011	40,257	109,734	-	141,970	291,961
2012	40,220	109,774	-	141,308	291,302
2013-2017	-	548,831	-	565,231	1,114,062
2018-2022	-	548,868	-	702,855	1,251,723
2023-2026	-	439,093	-	143,084	582,177
Total payments	<u>\$ 209,445</u>	<u>\$ 2,085,624</u>	<u>\$ 104,458</u>	<u>\$ 2,117,733</u>	<u>\$ 4,517,260</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 14: CONTINGENCIES

The City is currently testing the West Traverse Landfill, which was formerly operated by the City in conjunction with the townships of Friendship and West Traverse, as a possible source of drinking water contamination. However, studies to date have been inconclusive. Thus, no provision has been made for any potential liability related to the landfill.

NOTE 15: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City belongs to the Michigan Municipal League Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The City pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the City could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Settled claims have not exceeded coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARBOR SPRINGS
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Over/(Under)</u>
Beginning budgetary fund balance	\$ 1,349,900	\$ 1,330,900	\$ 1,541,700	\$ 210,800
Resources (inflows):				
Taxes	1,341,000	1,342,300	1,340,677	(1,623)
Licenses and permits	11,600	16,000	18,584	2,584
State grants	120,200	120,800	131,455	10,655
Administrative fees	415,500	415,500	414,513	(987)
Charges for services	166,200	169,500	152,164	(17,336)
Fines and forfeits	3,000	4,100	7,793	3,693
Interest	40,000	50,000	71,580	21,580
Other	10,100	63,000	44,885	(18,115)
Transfers from other funds	253,000	248,600	223,000	(25,600)
	<u>3,710,500</u>	<u>3,760,700</u>	<u>3,946,351</u>	<u>185,651</u>
Amounts available for appropriations				
Charges to appropriations (outflows):				
General government:				
Legislative	2,700	1,600	959	(641)
Manager	115,800	115,400	115,167	(233)
Elections	5,200	4,900	4,425	(475)
Accounting	144,100	159,600	145,335	(14,265)
Assessing	59,200	54,900	52,671	(2,229)
Legal services	77,200	104,000	119,752	15,752
Clerk	96,400	93,800	95,752	1,952
Finance treasurer	57,600	53,900	51,945	(1,955)
City hall and grounds	154,200	151,900	148,535	(3,365)
Total general government	<u>712,400</u>	<u>740,000</u>	<u>734,541</u>	<u>(5,459)</u>
Public safety:				
Police	551,900	552,600	539,755	(12,845)
Marine patrol	32,600	21,900	19,465	(2,435)
Fire	186,300	201,900	213,572	11,672
Planning	56,000	64,500	58,310	(6,190)
Total public safety	<u>826,800</u>	<u>840,900</u>	<u>831,102</u>	<u>(9,798)</u>
Public works:				
Cost of labor - sales	1,500	1,600	1,798	198
Spring clean-up	38,500	48,200	41,997	(6,203)
Leaf pickup	57,900	56,700	33,898	(22,802)
Sidewalks	33,500	35,100	37,476	2,376
Parking lots	21,200	20,900	20,395	(505)
Administration & fringe benefits	178,900	166,300	159,010	(7,290)
Airport activities	5,700	6,300	6,007	(293)
Total public works	<u>337,200</u>	<u>335,100</u>	<u>300,581</u>	<u>(34,519)</u>

CITY OF HARBOR SPRINGS
Budgetary Comparison Schedule
General Fund
(Continued)
For the Year Ended December 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
Recreation and cultural:				
SK-8 park	48,000	42,800	43,196	396
Beach	41,100	39,100	38,317	(783)
Kiwanis park	5,400	5,100	1,840	(3,260)
Ice rink	26,300	23,000	20,320	(2,680)
Parks and grounds	105,400	131,500	128,171	(3,329)
Deer park	3,100	3,900	2,897	(1,003)
Tree maintenance	12,600	12,600	11,849	(751)
Community promotion	11,200	9,300	6,990	(2,310)
Total recreation and cultural	<u>253,100</u>	<u>267,300</u>	<u>253,580</u>	<u>(13,720)</u>
Other functions	<u>42,000</u>	<u>46,200</u>	<u>63,189</u>	<u>16,989</u>
Transfers (out)	<u>176,300</u>	<u>176,300</u>	<u>176,300</u>	<u>-</u>
Total charges to appropriations	<u>2,347,800</u>	<u>2,405,800</u>	<u>2,359,293</u>	<u>(46,507)</u>
Ending budgetary fund balance	<u><u>\$ 1,362,700</u></u>	<u><u>\$ 1,354,900</u></u>	<u><u>\$ 1,587,058</u></u>	<u><u>\$ 232,158</u></u>

CITY OF HARBOR SPRINGS
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended December 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Over/(Under)</u>
Beginning budgetary fund balance	\$ 97,400	\$ 83,000	\$ 110,241	\$ 27,241
Resources (inflows):				
State grants	155,000	136,000	147,387	11,387
Interest	2,400	3,200	4,755	1,555
Other revenue	-	300	637	337
	<u>254,800</u>	<u>222,500</u>	<u>263,020</u>	<u>40,520</u>
Amounts available for appropriations				
Charges to appropriations (outflows):				
Public works:				
Construction	-	46,900	46,878	(22)
Routine maintenance	84,700	75,500	70,749	(4,751)
Winter maintenance	37,600	39,700	44,659	4,959
Administration	10,000	10,000	10,000	-
Other	23,100	12,600	5,449	(7,151)
	<u>155,400</u>	<u>184,700</u>	<u>177,735</u>	<u>(6,965)</u>
Total charges to appropriations				
Ending budgetary fund balance	<u>\$ 99,400</u>	<u>\$ 37,800</u>	<u>\$ 85,285</u>	<u>\$ 47,485</u>

CITY OF HARBOR SPRINGS
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
Beginning budgetary fund balance	\$ 937,100	\$ 871,000	\$ 990,756	\$ 119,756
Resources (Inflows):				
State grants	44,000	42,400	42,199	(201)
Interest	20,000	40,000	45,295	5,295
Other revenue	100	100	6,917	6,817
Transfers from other funds	150,000	150,000	150,000	-
	<u>1,151,200</u>	<u>1,103,500</u>	<u>1,235,167</u>	<u>131,667</u>
Amounts available for appropriations				
	<u>1,151,200</u>	<u>1,103,500</u>	<u>1,235,167</u>	<u>131,667</u>
Charges to appropriations (outflows):				
Public works:				
Construction	379,500	287,100	279,960	(7,140)
Routine maintenance	29,800	23,800	20,933	(2,867)
Winter maintenance	25,300	21,900	17,183	(4,717)
Administration	10,000	10,000	10,000	-
Other	24,500	11,400	4,813	(6,587)
	<u>469,100</u>	<u>354,200</u>	<u>332,889</u>	<u>(21,311)</u>
Total charges to appropriations				
	<u>469,100</u>	<u>354,200</u>	<u>332,889</u>	<u>(21,311)</u>
Ending budgetary fund balance	<u>\$ 682,100</u>	<u>\$ 749,300</u>	<u>\$ 902,278</u>	<u>\$ 152,978</u>

OTHER SUPPLEMENTAL INFORMATION

**CITY OF HARBOR SPRINGS
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2007**

<u>Assets</u>	Police Reserve	Historical Commission	Total
Cash	\$ 90,578	\$ 58,328	\$ 148,906
Receivables:			
Accounts	-	483	483
Accrued interest	90	57	147
Inventory, at cost	-	7,568	7,568
Prepaid expenditures	-	268	268
	<u>90,668</u>	<u>66,704</u>	<u>157,372</u>
Total assets	<u>\$ 90,668</u>	<u>\$ 66,704</u>	<u>\$ 157,372</u>
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 6	\$ 223	\$ 229
Accrued expenditures	-	273	273
Due to other funds	-	298	298
	<u>6</u>	<u>794</u>	<u>800</u>
Total liabilities	<u>6</u>	<u>794</u>	<u>800</u>
 Fund balances			
Reserved for inventory and prepaids	-	7,836	7,836
Unreserved	90,662	58,074	148,736
	<u>90,662</u>	<u>65,910</u>	<u>156,572</u>
Total fund balances	<u>90,662</u>	<u>65,910</u>	<u>156,572</u>
	<u>\$ 90,668</u>	<u>\$ 66,704</u>	<u>\$ 157,372</u>
Total liabilities and fund balances	<u>\$ 90,668</u>	<u>\$ 66,704</u>	<u>\$ 157,372</u>

CITY OF HARBOR SPRINGS
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2007

	Police Reserve	Historical Commission	Total
Revenues			
Charges for services	\$ -	\$ 2,082	\$ 2,082
Interest and investment earnings	2,375	2,694	5,069
Other	-	427	427
	<u>2,375</u>	<u>5,203</u>	<u>7,578</u>
Total revenues			
Expenditures			
Current:			
Public Safety	1,641	-	1,641
Recreational and cultural	-	23,074	23,074
	<u>1,641</u>	<u>23,074</u>	<u>24,715</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>734</u>	<u>(17,871)</u>	<u>(17,137)</u>
Other financing sources (uses)			
Operating transfers in	-	26,300	26,300
	<u>734</u>	<u>8,429</u>	<u>9,163</u>
Net change in fund balances			
Fund balances - beginning of year	<u>89,928</u>	<u>57,481</u>	<u>147,409</u>
Fund balances - end of year	<u><u>\$ 90,662</u></u>	<u><u>\$ 65,910</u></u>	<u><u>\$ 156,572</u></u>

CITY OF HARBOR SPRINGS
Combining Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2007

	Agency Funds		Total
	Tax Fund	West Traverse Township Water Fund	
<u>Assets</u>			
Cash	\$ 418,579	\$ 5,521	\$ 424,100
Investments	271,681	-	271,681
Receivables:			
Taxes	2,120,588	-	2,120,588
Water sales	-	4,443	4,443
Total assets	<u>\$ 2,810,848</u>	<u>\$ 9,964</u>	<u>\$ 2,820,812</u>
<u>Liabilities</u>			
Due to other funds	\$ 85,412	\$ 1,300	\$ 86,712
Due to other governmental units	-	8,664	8,664
Due to County	138,597	-	138,597
Due to School	1,404,629	-	1,404,629
Due to State	47,028	-	47,028
Due to ISD	523,052	-	523,052
Due to College	460,663	-	460,663
Due to Medical Care Facility	92,185	-	92,185
Due to Cemetery	28,418	-	28,418
Due to ambulance and EMS	28,789	-	28,789
Other liabilities	2,075	-	2,075
Total liabilities	<u>\$ 2,810,848</u>	<u>\$ 9,964</u>	<u>\$ 2,820,812</u>